

Report on a Dialogue on

**THE NEW ECONOMY**

**And Its Impact on the  
Changing Roles, Changing Relationships  
Among  
Business, Nonprofit Organizations, and Government**

by

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Sponsored by

**The Three-Sector Initiative**

A Collaborative Project of:

The Conference Board  
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INDEPENDENT SECTOR  
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## PREFACE

The Three-Sector Initiative is a collaborative effort among six organizations in the government, business, and nonprofit sectors: The Conference Board, Council on Foundations, INDEPENDENT SECTOR, National Academy of Public Administration National Alliance of Business, and the National Governors' Association.

These organizations have been working together for the past two years to examine the changing roles and relationships among the three sectors. Earlier this year they published their findings to date in a joint statement, [\*Changing Roles, Changing Relationships: The New Challenge for Business, Nonprofit Organizations, and Government\*](#).

Following publication of the report, the project began a series of dialogues around the country to share its findings and expand the conversation. This report summarizes the first dialogue on the impact of "The New Economy" on the roles and relationships among the three sectors, which was held in Washington D.C. on June 15, 2000.

Christopher Gates, President of the [National Civic League](#), facilitated the dialogue. It began with a presentation on "The New Economy" by Raymond C. Scheppach, Executive Director of the [National Governors' Association](#). The topic was explored by a panel comprised of Janice C. Kreamer, President and CEO, [Greater Kansas City Community Foundation](#); Richardson M. Roberts, Chief Executive Officer, [Link2Gov Corporation](#); and The Honorable Jeanne Shaheen, [Governor of New Hampshire](#). The dialogue was then opened to the approximately 150 civic leaders in attendance.

[Future dialogues](#) are planned for North Carolina, Kansas City, New York, and California.

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## EXECUTIVE SUMMARY

New technology and intense global competition are changing the roles and relationships among the government, business, and nonprofit sectors. Driven by powerful market forces and lucrative new opportunities, business is leading this change by applying the new technologies in ways that alter the conventional “rules of the game.” Government is attempting to catch up, in part by engaging business and nonprofits in new types of partnerships to upgrade technology and to provide public services.

All three sectors bear some responsibility for achieving such important public purposes as sustaining economic prosperity, improving the quality of life-long education, providing excellent services to citizens, and closing the digital divide. Education especially is key to prospering in the new economy, and a goal to be pursued in its own right for multiple benefits, including effective democratic governance.

Collaboration among the sectors is important not for its own sake, but because it is essential to producing results that matter to citizens. Collaborative leadership will require a different set of skills, including the ability to set aside old stereotypes about the three sectors and open up to the new realities of how the economy, society, and government function in fact.

These new realities create tension and misunderstanding among leaders in the three sectors. New Economy firms emphasize speed, accuracy, and results, and they expect the same from government. And when successful entrepreneurs become new donors with the intent of changing society, they tend to have little patience with the pace and stewardship responsibilities of the nonprofit world. Innovation and flexibility are essential. Yet business must remain accountable to its investors, customers, and the market; nonprofits to their boards, funders, and constituents; and government to its elected leaders and the public.

The central challenge is to convert these tensions into opportunities. A *strategy of balanced change* would acknowledge the private sector’s success in creating a new set of tools and capacities that government and nonprofit organizations could adopt to improve their own performance. But balance also requires government and the nonprofit sectors to protect the cherished values of democratic governance and a humane society, and to address important issues that would not otherwise receive appropriate attention from the private sector, including the unintended consequences of transformational change.

## INTRODUCTION

“Government provides public goods. Business creates wealth. Nonprofits channel altruism.”

That’s how Chris Gates, President of the National Civic League, characterized the traditional roles of our nation’s three principal social sectors. But all that has changed.

“We urgently need to rethink those old roles and adopt a more flexible approach,” said Mr. Gates, who facilitated the dialogue among 150 civic leaders. The purpose of this first in a series of dialogues, he explained, is to examine the principal economic forces driving change and the consequences for the changing roles and relationships among government, business, and the nonprofit sectors.

Mr. Gates introduced the panel representing the three sectors: Janice C. Kreamer, President and CEO, Greater Kansas City Community Foundation; Richardson M. Roberts, Chief Executive Officer, Link2Gov Corporation; and The Honorable Jeanne Shaheen, Governor of New Hampshire.

## CONFRONTING THE NEW ECONOMY

Raymond C. Scheppach, Executive Director of the National Governors’ Association, provided the following perspective on “The New Economy.”

### **Driving Forces**

The “New Economy” is essentially the Third Industrial Revolution: a convergence of telecommunications and computer power. As Thomas Friedman noted in his book, *The Lexus and the Olive Tree*, “once technology enabled change and now it is driving change.” The Internet can be expected to create enormous new savings of \$1.7 trillion per year, largely by spurring competition. Deregulation has reinforced wealth creation, which increasingly is rooted in labor, technology and knowledge.

The New Economy is also a global economy. Imports and exports together account for 25 percent of U.S. Gross National Product (GNP). Capital is highly mobile. It is not unusual for as many as 80,000 firms worldwide to compete for one contract put on the Internet.

The US economy is especially entrepreneurial. After lagging for years, productivity growth has been restored to its traditional rate of 3 to 3 1/2 percent per year. Real wages are rising. Firms today thrive on “co-competition,” cooperating on some things and competing on others.

Market dynamism is driving out long-established relationships between buyers and sellers. The Internet in particular is fundamentally changing those relationships.

Competitive advantage is determined by innovation, quality and speed. Business organization has shifted from economies of scale to tailor-made products and services. Dell Computers can take your tailored order and ship it to you in three days. The auto industry is probably not far behind.

Firms have learned the *power of network*. “Public code” for programs is open to all through the Internet. Researchers worldwide can feed on a common diet of knowledge and add their own contributions. Improvements come from taking that common knowledge and adding value for particular problems and customers. Biotechnology and cancer research, for example, have been making enormous strides through this model. The potential for the entire economy is phenomenal.

### **Implications for the Three Sectors**

The New Economy is “weightless” largely because it is digital. It has produced a world without borders, with dynamic economic activity at all levels: international, national, state, and regional. The rules of the game are changing, and they are being set principally by business, not by government, especially at the international level. Business is also pushing the Federal government to preempt the states on the grounds of efficiency, raising questions about the role of state and local government. Citizens, meanwhile, are concerned about consumer protection, environmental preservation, and the quality of life, including growth, sprawl, congestion and their impact on community.

Who should be taxed by which level of government? The federal government currently has the income tax, and the states the sales tax. But with business transactions moving electronically across state lines, it should probably be the reverse.

Real wages are up. But almost all of the new wealth goes to highly educated and skilled people in the top income brackets. Average salaries in the high tech sector are 70 percent higher than those of the average American worker. Last year Bill Gates was wealthier than 120 million Americans combined. These variations in income apply across geographical and class boundaries.

Government has difficulty making decisions that keep pace with the rapid change, in part because the public has a hard time keeping informed about new circumstances. One consequence is a continuing shift of leadership to the private sector, which can act more quickly to set the new rules of the game. Government is playing catch-up, and essentially confirming decisions already made by business.

Government is under increasing demand to increase its efficiency. It can take government up to three years to buy new technology that is out of date in a year. So government must restructure and improve its operations. It will be looking to the private sector to improve efficiency and service, including mass privatization to contract out entire government services and operating components. Government’s role will shift toward setting quality standards for contracted services, rather than providing them directly.

In short, the old lines distinguishing the business, government, and nonprofit sector are being blurred. Each sector is moving into the traditional turf of the others. Business is setting more rules and regulations, and educating and training the labor force, including through private primary and secondary schools. Government is contracting out more to the private and independent sectors. All three sectors depend increasingly on partnerships.

## **EVOLVING ROLES AND RELATIONSHIPS**

The panelists all agreed that these powerful economic and technological forces are changing the roles of government, business, and nonprofit organizations. The traditional lines among the three sectors are blurring, and the relationships among them are changing. But how? And what does it all mean?

### **Government Perspective**

New Hampshire Governor Jeanne Shaheen acknowledged that government lagged behind the private sector in its embrace and application of new technology, and needed to catch up. “Just as in the private sector,” she said, “technology has the potential to dramatically improve productivity in the public sector. But the catch is that the resources need to be there to do it. You have to educate the public and the legislature that this is an important move.”

Ironically, the same resource pressures also may have acted as an incentive to seek out creative partnerships. “New Hampshire has a good record of partnering with the private sector and nonprofits,” the governor explained, “in part because we are a small state and haven’t had the government dollars to get things done. We’ve had to figure out how to do it a different way. And that’s the process we’re in right now.”

“Partnerships now are more critical than in the past,” said the governor, “but we’re not sure what they will look like.” Government is providing more and more service through the private sector. Connecticut, for example, now contracts out all of its information technology. New Hampshire is looking to its many homegrown companies to help out. For example, the state has established a Public Private Task Force including such companies as Oracle and Cisco to help put together a strategic plan for state government.

### **Business Perspective**

Richardson M. Roberts, Chief Executive Officer of Link2Gov Corporation, claimed it is really the private sector that is reinventing government through the application of new technology to public services. And if anything the pace of technological change is accelerating. Moore's Law holds that the speed of the microchip

doubles every 18 months. If it takes government 36 months to purchase new technology, they are operating at one-fourth the speed business could provide it.

Government contracts with business more than is realized. For example, the Sky Lab and Shuttle space programs are all billed as initiatives of “NASA,” but look at the role that firms like Lockheed Martin play. Mr. Roberts’s firm provides technologically advanced electronic solutions for government. He estimates that the “e-government marketplace” -- including the processing of traffic citations, vehicle registrations, drivers’ licenses, corporate and professional licenses, and hunting and fishing licenses -- is valued at about \$500 billion. No single company has more than 2 percent of that market share.

The private sector is also entering such areas as restoring industrial and environmental sites back to their natural state. Mr. Roberts invests in a company in Alabama dealing with old weapons that involves restoring wetlands to their natural state, sites that the U.S. Army Corps of Engineers channelized some 50 years ago. The firm has to get approval from the Corps and from the Tennessee Valley Authority (TVA) but he doubts the federal government is capable of managing a project like that. “Government,” he suggests, “should let the private sector bring down barriers – but do it through partnership.”

### **Nonprofit Perspective**

Janice C. Kreamer, President and CEO of the Greater Kansas City Community Foundation, observed that society is increasing its reliance on the philanthropic and nonprofit sector. Over the past seven years, her community foundation has grown from \$12 million in grants and fewer than 400 constituents to nearly \$90 million in grants and more than 5,000 constituents. But the change is far greater than revealed in the numbers.

In the past, donors “parked their money” with community foundations. About 70-80 percent of that money was consumed in transactional costs. As Ms. Kreamer explained, “We needed to convert the generosity and caring of donors in Kansas City into informed civic engagement with more emphasis on providing strategic information that helps our constituents be better informed and better connected, with avenues to move from a passive role to a very engaged role.” That strategy, combined with use of the Internet, permitted the foundation to cut its transactions costs to 40-50 percent, so that more money goes into producing results. “We are certainly harvesting charitable giving,” said Ms. Kreamer, “but also employing a very aggressive and intentional civic engagement strategy.”

On top of that, community foundations are also learning how to tap into the “new philanthropy” by connecting causes and issues of the nonprofit community with entrepreneurs who have benefited from the New Economy. More on that later.

### **A “Fourth Sector”?**

Alan Abramson of the Aspen Institute raised the possibility that a “Fourth Sector” may be evolving – or perhaps should be encouraged – comprised of a new class of organizations that try to hit “a double bottom-line, to do good at the same time they are making a profit.” For some organizations it seems to be a flip of the coin whether they are a dot-com (for profit) or a dot-org (nonprofit). But the rules of the game, including old tax laws, may be an impediment to such organizations

The possibility of a “Fourth Sector” prompted quite different responses from the panel. Jan Kremer noted that such organizations now exist, citing the example of Bill Strickland who developed a craftsmen’s guild in Pittsburgh into mega-businesses that are now paying taxes. Supported by the Kaufman Foundation and working with Stanford and Harvard University, Strickland is now attempting to teach nonprofits the principles by which to earn taxable income that can be used to support their public missions.

Kansas City is also participating in that effort by helping nonprofits adopt entrepreneurial business practices. For example, experienced business people have provided “black hat” reviews of business plans by nonprofits focused on employing welfare women, helping at risk youth, and assisting immigrants coming to Kansas City. This effort is also causing other nonprofits in the community to rethink the notion of mission and accountability, and to better understand the capacity needs of nonprofits.

Rich Roberts was skeptical. He prefers that the line between for-profit business and nonprofit organizations not be blurred in this case. “I mentioned that I’m restoring a wetlands habitat, but that’s a for-profit business. The benefit is that we’re taking nitrates out of the water and making a duck habitat. But I put money in that thing because it’s going to *make* money. I’m kind of afraid of somebody at the end of the day who’s trying to save an owl habitat at the same time he is trying to make money, because I don’t know if he really loves owls as much as he loves money.”

Governor Shaheen took issue with Mr. Roberts’s position: “I think we are seeing a whole bunch of different ways that combine business and charitable efforts that is very positive, and government sometimes gets involved.” She noted that her daughter started a communications business engaged in helping businesses that want to do good and invest in charitable ways. In another example, a group of high tech businesses in New Hampshire started “E-Cares” which works with the state’s principal charitable foundation to help develop a stream of revenue to fund the Land and Community Heritage Investment Program designed to preserve open space, historical places and cultural resources in New Hampshire.

“The dynamics of the new economy will not permit business as normal to continue,” Governor Shaheen argued. The reality is that many businesses will pursue the double bottom line of doing good *and* making money. “I’m not troubled by that. This is really the next step in corporate social responsibility. And it also can strengthen the ability of nonprofits to do their jobs better.”

## **Shifting Relationships**

Sheila Toliver, who works for the government of Howard County, Maryland, noted that the private sector has played a major role in research. But if the results of research are going to be available to everyone through the Internet, what incentive will business have to invest in research? Who will replace business as investor?

Ray Scheppach responded by noting that the way we price goods is changing. Unlike a product such as a car, the marginal cost of reproducing knowledge-based products approaches zero. It used to cost \$3,000 to get on the Internet with a Personal Computer (PC) and necessary software; now we're moving toward a PC appliance that costs \$200, and some companies are beginning to give them away for free with a monthly service charge. Resources such as the Linux operating system is free to everyone, and the value added comes from tailoring by focusing on specific customers. Firms seek out niche markets and short run monopoly situations that they can quickly exploit, but may quickly fold. Companies are sorting out where they will invest in the future, what can be patented, and how to price their products and services profitably and competitively.

Chris Gates pointed out that while the conversation had focused on changing roles among government, business, and nonprofits, another important dimension was the changing roles and relationships among the various *levels of government*. He reported that at the recent national conference of the United States Conference of Mayors in Seattle Mayor Welling Webb of Denver said "cities, not states, are the drivers of the economy."

Governor Shaheen suggested that the mayor had "missed the point," because in reality, "everybody has a role." She cited the example of how her state had responded to a recent U.S. Environmental Protection Agency ruling on discharges by the city of Manchester into the Merrimac River that would have cost the city \$30 million. The state government interceded with EPA on behalf of the city, and all three levels of government worked together, and with others in New Hampshire, to come up with alternative environmental measures to solve the problem, such as saving white cedar swamps.

Such collaborative approaches are more likely to make everybody a winner, the governor argued, but the key is getting everyone to the table. Nor does the leadership for such collaborations necessarily have to come from the same source every time. For example, The University of New Hampshire wanted to establish a separate branch in Manchester, and the city initiated a land swap to accommodate the needs of both the city and the university, a better solution at a lower cost for everyone.

## **ACHIEVING PUBLIC PURPOSES**

Ultimately the real concern about changing roles and relationships among the sectors has to do with how it affects their ability to achieve important public purposes. The panel agreed on the priority public purposes. High on the list was sustaining the economic prosperity that had produced so many benefits and created opportunity to solve other problems. And the key to continued economic prosperity in the new knowledge-based economy, all agreed, was education.

### **Providing High Quality Education**

No one was surprised that education took such a central role in the conversation. However, what came through strongly was the pervasive nature of knowledge and learning as the epicenter of the new economy. Education is not only the key to mastering and prospering in the new economy. It is also a critical capacity for democratic governance, and a goal to be pursued in its own right for the multiple benefits it can bestow.

The panelists defined education broadly to include early childhood development, K-12 schools, higher education, technical and job-related training, and life-long learning. They also included public knowledge and awareness about the changes driving social and economic change, and how citizens and their various public institutions need to respond to these changes. In essence, “education” has become a label for what is no less than a new mindset and culture.

Governor Shaheen was unequivocal in stating that education is the single most important priority in an era when “economies of skill are more important than economies of scale.” She noted that New Hampshire had committed to connecting all its schools and libraries to the Internet, and praised Governor Angus King of Maine for advocating a laptop for every 7<sup>th</sup> grader.

The governor also argued for rethinking old approaches to education and the function and operation of schools. For example, teenagers tend to get into trouble after school when there is no one home to supervise them; kids at home need attention after school. Teenagers also need more sleep. So why not shift the hours of school from 7:30 am – 2:30 pm to 9 am – 5 pm, and solve both problems at once: more sleep for kids in the morning and more supervision of them after school in the afternoon.

Jim McClesky, from the Washington office of North Carolina Governor Jim Hunt, argued that public education lacks the fiscal capacity to provide the skills and knowledge required in today’s economy because of the “disconnect between education and sales taxes.”

Governor Shaheen agreed that the problem of financing education was indeed a painful one, noting that New Hampshire has no sales *or* income tax. The New Hampshire Supreme Court ruled that the way public education is financed – until 1997 relying on the local property tax to cover 90 percent of the cost -- is unconstitutional. “Finding a new way to finance education is now the single greatest challenge facing New Hampshire,”

said the governor. “You can’t disconnect this problem from the broader question of how the states will deal with the decline in sales tax revenues due to the Internet. The states can’t do that individually, but have to look to a national approach, which just isn’t happening.”

Jan Kreamer reported that Kansas City is looking at “Smart Start” early childhood education as it is practiced in North Carolina: quality child development and education “0-K.” Ms. Kreamer also highlighted the way in which education is a key leverage point: you have to educate the public on the importance of supporting the education people need to be productive workers and responsible citizens. In Kansas City, philanthropy is helping orchestrate a community education campaign for just that purpose, and is using up-to-date techniques of media, marketing, and political campaigning to do so.

### **Serving Citizens**

The panel also agreed that another important public purpose highlighted by the new economy is improved government service to citizens. Satisfying citizens as “customers” of government is important not only in its own right, but also because it is central to restoring public confidence in government. The opportunities here are abundant for government to adopt innovative ideas from other governments, and to engage the private sector in bringing state-of-the-art technology and service methods to the public sector.

Improvements in service in the private sector in recent years, due in large measure to skillful application of new technology, have magnified the relatively poorer service levels offered by too many government agencies. Mr. Roberts noted that in the private sector the point of sale in individual purchasing transactions had shifted from person-to-person to mail in the 1950s; to greater use of the telephone in the 80s; to interactive voice response telephone in the 90s; and now to the Internet. Many governments, however, seem to be stuck back at the person-to-person transaction stage.

The potential for better service and reduced costs is enormous. For example, using mail to process drivers’ licenses costs \$8-10 per transaction, whereas to do it electronically would cost less than \$1 per transaction. Florida has 14 million motor vehicles with a 10 percent renewal. Mr. Roberts estimated the potential cost savings for Florida in moving from mail to electronic processing of drivers’ licenses at about \$7 million per year.

Other states have already gone further. For example, Alaska, which is in the front tier of e-governance, charges a \$10 “inconvenience fee” if you come to the point of sale for an in-person transaction, just as some banks did in providing ATM service free but charging \$3 to use a teller.

And technology continues to advance. For example, clear voice recognition will soon be state-of-the-art, and could further revolutionize service operations by combining the power of telephone and computer.

Governor Shaheen agreed that the opportunities to improve service delivery in government were yet to be fully exploited. And Jan Kraemer reminded the group of the growing nonprofit role in providing public services. In Missouri, for example, the state's LINK program gives the community the ability to determine the disbursement of service dollars. Philanthropic organizations are also helping the city and state governments make better use of technology to improve service delivery.

One of the challenges in upgrading government services through new technology is to assure they are equally available to all citizens. As Rich Roberts put it "Government should provide services not just to the guy that's got the Jaguar and the lap top going 90 miles an hour paying his traffic citation as the police car is chasing him down the road, but to the soccer mom and the blue collar worker who has to take off two or three hours and truly dig into their wallet." This, it turns out, is but one dimension of the "digital divide."

### **Closing the Digital Divide**

One of the dark sides of the New Economy and the general prosperity it has spawned is the substantial gap in the distribution of its benefits. The panel agreed that disparities in income and wealth resulting in part from the "digital divide"— the unequal distribution of high technology and skills -- was no myth, but a serious problem that threatened to get worse.

Rich Roberts noted that one-half the world's population has yet to make its first telephone call. In South America, only 4-6 percent of the population has Internet access, compared to some 139 million Americans and Canadians.

Even in the United States, one-third of North Carolina's population and 20 percent of New Yorkers still have a rotary dial phone (although many of those same homes also have key pad phones, and most people have access to key pad pay telephones). Mr. Roberts noted that his company and several others were creating a telephone interactive call center for rotary dial phones to access this population. The problem is complicated by the fact that standard method of payment on the Internet is the credit card, so the poor, who are less likely to have credit cards, are at a double disadvantage.

Chris Gates pointed out that the digital divide also has implications for democratic governance. For example, would voting over the Internet be unfair to those without Internet access, and widen the gap between the higher proportions of the rich than the poor who actually vote? Ms. Kreamer believes that part of the answer here is her foundation's strategy of "civic engagement" to move people from a passive to an engaged role, in part by way of providing better information.

## COLLABORATING FOR RESULTS

The panelists agreed that collaboration is an important avenue for changing relationships among the sectors and helping them achieve important public purposes. It is important to find non-abrasive ways for the three sectors to work together. And it is critical to remember that collaboration is not an end itself, but a tool to produce results.

Sometimes, Ms. Kreamer pointed out, the choice may be stark: Do we “compromise or change”? Compromise may amount to little more than rearranging what already exists. Real change may require a wholly new scale and quality of operation. “These are the questions before all of us: are we ready to move beyond talking about consensus and collaboration and understand that these are tactics but they are not the ends unto themselves; but how you apply those to get the most meaningful change for the customer, which is the citizens in our communities.”

The panel also agreed on three priorities that linked collaboration to results: *leadership*, *change*, and *accountability*. However, they differed on what these things mean and how to get them.

### Leadership

Gail Christopher, director of the Ford Foundation-Kennedy School Innovations in American Government Project, argued for a *new type of leadership* with a different skill-set from the past. Effective leaders today, she said, need to set aside old stereotypes about the three sectors. The central challenge is to find new leaders who understand the new realities of how the economy, society, and government function in fact.

Barbara Dyer, president of the Hitachi Foundation, observed that one of those new realities creates tension and misunderstanding among leaders in the three sectors. The New Economy firms emphasize speed, accuracy, and results. Consequently, when successful entrepreneurs become new donors with the intent of changing society, they tend to have little patience with institutions of government and nonprofits. In fact, business leadership often wants to bypass those institutions to get results more rapidly. Yet government and nonprofits are stewards for the public. How is this tension to be reconciled?

Jan Kreamer confirmed that such tensions exist, and saw it as an opportunity. The new corporate donors bring valuable new attitudes, new enthusiasm and a penchant for action; we *can* do something, they stress. Veteran players in philanthropy and nonprofits need that energy and the accountability that comes from being challenged to produce real results, faster and better. And the best of them *like* it! “It is useful to have generous, hard-nosed types who also have compassion, commitment and a sense of urgency. They may be “suits,” but they don’t care any less.”

“The trick,” according to Ms Kreamer, “is to combine this new energy with a measure of reason and its own accountability to assure that the action is respectful of critical values that philanthropic and nonprofit organizations need to observe.”

Rich Roberts also agreed that the impatience of private entrepreneurs inclines them to want to bypass government. His business, however, is not one of them, and he would urge other business leaders to alter their views. He sees government as a valued customer -- and a steady source of income -- his firm looks forward to serving for years to come.

Mr. Roberts would remind business people of certain “foundation blocks” rooted in the public and nonprofit sectors serve to anchor the good intentions and action-orientation of business people. These include the need for consensus and stability. The “good steward” in business will work to spread fixed costs over numerous government customers, and serve all of those customers well by maintaining state-of-the-art technology and business practices in the goods and services they provide government.

Governor Shaheen was encouraged with a new leadership style she has seen emerge in the public sector over the past five years or so: more pragmatic, flexible, consensus-building, and willing to do things differently. Her experience also demonstrated the importance of bringing business to the table as partners, both for their own expertise and resources and because their presence is critical in getting other top players to the table. And it is equally important – and no small challenge -- to *keep* them at the table, in part by recognizing their frustration with the pace of government. It was business, after all, that prompted the movement to improve in education.

Chris Gates observed that the rules by which the various sectors collaborate to address public purposes seem to vary from issue to issue. The National Civic League refers to this as *ad hoc* *cracy*: coalitions come together, trade rules and are flexible in creating solution unique to a particular problem, and then may disperse. Are there any general lessons that can be learned from these various experiences that suggest how leaders in the three sectors can most fruitfully collaborate to produce results that matter to citizens?

All agreed that the private sector was competing aggressively for top talent, the best and brightest. Government and the nonprofit world need to compete as well. But ultimately all three sectors need to better understand how even the best leaders can bring about the kind of innovation and adaptation that’s required.

### **Change, and How to Get It**

The panelists pondered why government is not moving faster to exploit the new opportunities and to address the challenges posed by rapid change in the private sector. They differed sharply on the extent to which government inherently resists change.

Mr. Roberts said that from his experience it seems that resistance to change is deeply ingrained in government, both structurally and culturally.

The structural problem begins with the fact that government is a monopoly. That's why it takes three hours to issue a driver's license; the consumer has no alternative but his single state department of motor vehicles. The monopoly problem is complicated by other self-imposed barriers. For example, electronic transactions usually require use of a credit card, but most governments prohibit the use of credit cards because they involve a discount that government refuses to pay. So it's not just a matter of adopting technology, but changing a number of factors that act as inhibitors to change.

To demonstrate the cultural problem, he cited the response he got from a government official upon explaining the benefits of shifting from mail processing to electronic processing: "We just got an automated mail system. What would we do with it, and how would we explain to the public and legislature that we were scrapping it for another system? Would they provide the funds for the new system?"

Mr. Gates pointed out that there are many people in government who fight for change, citing the Ford-Kennedy School Innovations Project that Gail Christopher heads as providing ample evidence of successful innovation in government. Many governments are acting to upgrade technology and their capacity to employ it.

Mr. Roberts acknowledged that some governments are attempting to change. For example, 37 states now have chief information officers (CIOs), some of whom are mandated to bring better services employing the latest technology to their states. But will these people be change agents or scapegoats?

Governor Shaheen acknowledged that governments generally are less motivated to change than businesses. But she felt that the picture is more complicated than Mr. Roberts presents it. She believes it is important for public leaders to establish high expectations that government should live up to. She cited the work of the Progressive Policy Institute, a Democratic think tank, and the Progress and Freedom Foundation, a Republican think tank, as examples of concerted efforts to induce constructive change in government.

And it is also important to remember that our government system is a representative democracy, she reminded the group, where power resides with voters who elect their representatives. Top government leaders cannot, and should not, change simply by fiat. They need to lead by educating and persuading their colleagues and the public.

Ms. Kreamer noted that the problem of change is not limited to government, but confronts nonprofits and foundations as well. She believes that the boards of these organizations need to change themselves from the inside, in part by updating the skills of their boards of directors either through education or by bringing in new board members with the requisite skills and attributes. These include: 1) an ability to "dual process" and

not just think linearly about multi-faceted issues; 2) a willingness to embrace reasonable risk; and 3) an ability to look at return-on-investment and rethink how to calculate it.

Foundations also need to change in their relationships with their constituents. Her foundation's strategy of "civic engagement" connects causes and issues to new philanthropy. The intent is to move people from a passive to an engaged role, in part by way of providing better information to foundation constituents and other citizens. "Once the relationships are bridged between new donors and a new issue, the old-time players who have been toiling and have been doing great work appreciate that renewed sense of urgency and accountability, and if you've made the right connection they'll embrace it."

Bob Jones, Executive Director of the National Alliance of Business (one of the sponsors of the dialogue) suggested that the problem of different perceptions and styles of leadership had to do with the "changing relationships" among the sectors. Power has been redistributed in a way that there are now different power centers not clearly connected to traditional political processes. You used to be able to get business leaders and others together around issues like social security, and this would provide a context for developing relationships that could be used to deal with other issues. This is no longer the case.

"It's a community thing!" exclaimed Rich Roberts. "If you want to make an impact in your life and sow the seeds of change it needs to be in your garden patch there locally." He noted that the Republican governor in his state of Tennessee was campaigning for a state income tax, in part to finance education, and was paying the political price for it. "If you want to sow the seeds it has to be done in the private sector and at the local level." He cited as an example a "community 0-5 childhood development center that is 100 percent privately funded."

Mr. Roberts summarized his thoughts this way: "I saw this clip on TV of a kid all by himself by the ocean where thousands of starfish had washed up on the shore. He was throwing them back in the ocean as the tide receded so they wouldn't dry up. Somebody came up to him and said, 'Look, you really can't make a difference by doing that.' The kid threw another starfish back in the ocean said, 'It made a difference to that one!' It starts with one individual at a time. That's my personal investment philosophy as well as my corporate one: deeds follow words."

If the panelists disagreed on the nature of the barriers to change, they were unanimous in believing that the creative use of information technology could help crack the problem.

One way to break up monopolies, Mr. Roberts suggested, is to provide information about alternative ways of doing things. For example, public awareness that a neighboring state is providing licenses rapidly and with a high level of service can create the public pressure for a state to change the way it operates. If *they* can do it, why can't *we*?

Governor Shaheen stressed that good, accurate, and timely information was key to persuading the public, their elected representatives, and government employees of the need and opportunities for change.

And Jan Kreamer stressed that nonprofit and foundation boards need to learn how to use the vast new information resources for internal improvement and to effectively engage their constituents. “The new opportunity for the new donors, the nonprofits, and for government,” she said, “is to have the power of information inform all of these worlds and make us smarter and our communities stronger.”

### **Accountability**

Governor Shaheen underscored the challenge of accountability in this dynamic new era. Flexibility is key, to be sure, and innovation is essential. And yet, we need to provide for accountability in some fashion. How can we permit individuals and organizations greater flexibility to be innovative and to develop creative and tailored solutions to particular problems, and also develop different accountability approaches that are applicable to those circumstances? If the law is not to determine accountability, then what should?

Mr. Roberts said his accountability as a businessman begins with the fact that his investors demand a return on their investment in his company. He is also accountable to his customers, including governments: the free market determines the next firm to be contracted by any government for whom he works.

But how, he asked, is government to be held accountable? What are we to do with that government official who refused to scrap the old mail processing equipment to buy up-to-date electronic transaction technology? Here again, government doesn't seem to appreciate the new reality of Moore's law and the rapid pace of technological change.

Governor Shaheen noted the reality that government is accountable to the public: “My ‘board of directors’ is the legislature and the public,” she said, and they may not be willing to “invest” more money to do things differently. If, in fact, such an investment makes sense in terms of reducing cost and improving service, then they need to be educated.

Ms. Kreamer empathized with Mr. Robert's frustration. “I stood in line for three hours for a driver's license in Missouri.” But she also understands the reality of politics and the democratic process, as the governor laid it out. We need to learn how to engage and educate the public and political leaders, so that they will be willing to provide the capital and support to reengineer systems and cultures. “How do we turn this into an opportunity, and become part of globalization?”

Once again, all roads seemed to point to better information, knowledge, and education.

## KEYS TO THE FUTURE: BALANCE AND ADAPTABILITY

Where do we go from here?

The panel focused on how to deal with the rapid and accelerating pace of change affecting all three sectors. They agreed it would be futile to deny or attempt to stop that change, driven as it is by powerful economic and technological forces. Those forces have already redefined the structure, operations, and mindset of the private sector. *The central challenge is to balance change in the private sector with appropriate and commensurate changes in the government and nonprofit sectors, and to anticipate and adapt to unintended consequences.*

### Balanced Change

A *strategy of balanced change* would acknowledge that the New Economy had created abundant new wealth for society as a whole, and that it promised to continue doing so. In achieving this success, the private sector had created a new set of tools and capacities that government and nonprofit organizations could adopt to improve their own performance.

But balance also requires government and the nonprofit sectors to protect the cherished values of democratic governance and a humane society, and to address important issues that would not otherwise receive appropriate attention from the private sector. To accomplish this, government, working in partnership with both the private and nonprofit sectors, needs to devise new methods of accountability that leave ample room for freedom, flexibility, and innovation, while assuring that individuals and organizations are held appropriately accountable for their actions and their results.

### Unintended Consequences

A prime responsibility for all three sectors is to *anticipate the unintended consequences* of rapid transformational change. Gail Christopher, who noted that the federal government once had an Office of Technology Assessment that was abolished by Congress, raised this point. Bob Jones cautioned that economic prosperity had obscured fundamental changes in the traditional structure of problem solving that could be harshly exposed in the next economic downturn. Mark Rosenman, Director of The Union Institute, warned that shifts of activity to the private market resulted in a loss of democratic control, a rising gap in wealth and income, and the rising importance of global affairs that are beyond the scope of traditional government and nonprofit organizations.

Foremost in the minds of many participants was how to assure that leadership in all three sectors will anticipate these developments and help their institutions adapt appropriately.

All the panelists agreed that this was a key question, even if the answers are less than clear at this point. Rich Roberts agreed that there will be unintended consequences of the phenomenal New Economy, including leaving large numbers of people behind in the digital economy, and we need to confront those questions now. Jan Kreamer acknowledged that we don't have answers, but it is critical to continue asking the question. Are we -- especially those of us in the nonprofit sector with a special role to play in watching out for the integrity of our sector and the less fortunate -- approaching these new opportunities and relationships with a sufficiently critical eye? And Governor Shaheen noted how government is struggling with precisely these questions, and must continue to do so.

Mr. Rosenman thanked the panel for the “exemplary level and quality and honesty of the interaction.” And Chris Gates closed the meeting by thanking the presenter, panel, participants, and supporting organizations for a provocative first dialogue on improving collaboration among the business, government, and nonprofit sectors.